DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 20, 1990

The Honorable Thomas S. Foley
Speaker of the House of
Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I am writing to express my concerns regarding H.R. 3950, the Food and Agricultural Resources Act of 1990. While I recognize the improvements that have been made by the full Committee on Agriculture relative to subcommittee action on commodity programs, the Administration could only support H.R. 3950 if further budget savings and policy reforms in the direction of the successful 1985 Farm Bill are achieved.

From a budget standpoint, the costs of the legislation have been reduced from the estimates of subcommittee action. However, they are still excessive. We estimate that the mandatory spending requirements of the bill would result in outlays of about $6.5 billion above the Mid-Session Review (MSR) current law baseline for FYs 1991-1995. Of this amount, $5.4 billion would be spent on nutrition programs. In addition, the bill authorizes appropriations for a number of new programs and authorities which could result in over $3.0 billion of additional outlays. Compared to the President's proposed budget, outlays under this legislation are estimated more than $25 billion higher for the FY 1991-1995 period.

The proposed legislation also creates substantial budget exposure that is not well represented by the single number for the cost estimate of the bill. Modest and quite plausible changes in market prices from currently projected levels could well imply substantial future outlays not now reflected in our current estimate. As an example, the soybean marketing loan program appears to be without much cost using the current baseline, but a relatively minor change to the soybean price would trigger substantial marketing loan payments. In fact, based on historical variability of soybean prices, outlays are expected to greatly exceed the costs derived from the assumed baseline market conditions.

The characteristics of this legislation as well as past experience dictate that the Administration's support for the bill will depend not only on the bill's projected outlays under baseline conditions but also the potential for additional budget costs that could result under varying economic and crop conditions during the life of the bill.

The Administration and the Congress are committed to reduction of the Federal deficit. To that end, spending restraint will be required. Even though the pieces of the budget summit agreement are still being put together, we can be assured that outlays for the 1990 Farm Bill will have to be reduced significantly from the MSR baseline estimate.

In order to achieve reductions in outlays for the commodity programs adjustments to target prices or payment acres and, to a more limited extent, better targeting of program payments could be considered. For example, payment limitation provisions could be tightened if payments to artificial entities were attributed back to individuals. We will work with you to meet the agreed upon savings targets, being mindful of the magnitude of the task of deficit reduction.

Additionally, the budget summit is considering reducing entitlements from their baseline levels. Given the difficult programmatic changes facing numerous other entitlement programs and the desire to be even-handed in the budget deliberations, a significant and rapid expansion of the Food Stamp Program is not warranted and ill-timed. Spending on the Food Stamp Program has expanded by $2.5 billion, or 16 percent, from the January budget request for 1990 to the MSR estimate for 1991.

Meeting these budget constraints is completely consistent with our goal to develop legislation that does not deviate greatly from the market-oriented, competitive course of the Food Security Act of 1985. We offer the following comments on individual sections of H.R. 3950 to help move the legislation forward to a successful conclusion, as measured by policy and budget standards.

Commodity Programs

The Committee's proposal departs from the market-oriented direction of the 1985 Farm Bill by raising loan rates, the Commodity Credit Corporation's (CCC) minimum sales price restrictions, and the effective barley target price. We believe these changes are unwise from the standpoint of maintaining a competitive U.S. agriculture, and we strongly recommend that such proposals not be adopted.

Based on the MSR Budget baseline, we estimate that over their 5-year life the commodity provisions of the Committee's bill will cost about $1.0 billion more than the $54 billion that would be spent under continuation of current law. Since release of the President's FY 1991 Budget baseline in January, several events have caused prices for farm commodities to rise above earlier projections. The MSR update of the President's Budget, which is based on June supply-demand conditions, has incorporated revised price expectations which lowered the projected cost of the commodity provisions of the Committee's bill. However, the price fluctuations of commodity market dictates that we consider the variability as well as the absolute dollar estimate of spending for these programs. A substantial amount of additional budget exposure would result if actual supply-demand conditions deviate from the conditions assumed in the June baseline. In fact, for some provisions the statistically expected level of outlays greatly exceeds the outlays that would be generated under the assumed budget baseline. This is particularly true of the soybean marketing loan program proposal and the "high ARP bonus."

One measure of the potential budget exposure of the commodity provisions is the cost of these provisions using the earlier January baseline. Using this baseline, the overall cost of the Committee's bill commodity provisions would exceed the current law baseline by nearly $4.0 billion over the FY 1991-1995 period. The soybean marketing loan program, in particular, would cost $3.0 billion over the period using the January baseline. As this illustrates, supply-demand conditions can change very rapidly and thereby affecting outlays substantially.

We are disappointed with the Committee's proposed "flexibility" provisions. They simply do not provide much flexibility, and that will be a great disappointment to thousands of producers of program crops. One of the Administration's top priorities in the price and income support area is to reduce the rigidity of present programs. The primary benefit from greater flexibility will be a more efficient U.S. agriculture in which farmers make their own planting decisions. The limited flexibility that the Committee has chosen to provide involves the farmer weighing the market price of one crop against the target price of another. Thus, very limited planting flexibility ultimately would be achieved. We believe that planting decisions on all or at least a significant portion of normal crop acreage should be based on market returns alone. In particular, this would allow soybeans to compete for acreage with program crops, with much more success than is possible today. Further, allowing greater planting flexibility would provide significant environmental benefits.

Wheat and Feed Grains

For wheat and feed grains, the Committee raises loan rates above those that would prevail today and in the future under current law. The high, inflexible loan rates of the early 1980's effectively priced farmers out of world markets and contributed in a major way to the economic difficulties of the early 1980's. We should have learned from that experience, which put thousands of farmers into bankruptcy. In addition, our competitors around the world will applaud such action, for it indicates our willingness to be a residual supplier in the international marketplace. Higher loan rates in the U.S. are a signal to the rest of the world to plant more grain. This too would be a replication of the early 1980s when world market prices declined and U.S. exports plummeted. If we choose to travel that road again, we will all merit the condemnation of our agricultural constituency and the general taxpaying public as well.

The Committee provision to effectively increase the barley target price is unwarranted. Excluding higher priced malting barley from the "all barley" market price calculation used to determine deficiency payments is estimated to increase CCC outlays by $230 million. If a similar provision to exclude the higher value portion of the crop were applied to other program crops, an additional several hundred million dollars in outlays would result. Further, the provision to base 1988 and 1989-crop barley refunds of unearned advance deficiency payments on a new calculation is unwarranted and could increase outlays by up to $80 million.

A troubling aspect of the wheat and feed grain titles is the requirement that target prices be raised if acreage reduction program (ARP) percentages are increased above the levels assumed in the baseline. This "high ARP bonus" would lead some producers to lobby for larger acreage reduction programs and would inhibit the rational use of such controls to provide market stability. This provision would cost over $1.0 billion for wheat alone, and the cost would increase sharply if an ARP adjustment were triggered for corn. We also object to an increase in the storage payment rate for the Farmer-Owned Reserve (FOR) in that it will provide a windfall for farm-stored loan grain and inhibit the movement of grain to market. If the FOR were triggered, the higher storage rates would increase outlays by over $50 million in any given year.

Soybeans

We object to the oilseed marketing loan program that the Committee adopted. Our view is that the oilseed marketing loan proposal is essentially an income transfer program for producers of oilseed crops that will do little to boost our competitiveness or market share. Taking into account the historical variability of soybean prices, the soybean marketing loan is likely to cost about $2.0 billion over the life of the bill. Our analysis also indicates that the increase in global market share that can be achieved through the marketing loan and the Committee's flexibility proposal will be smaller and far more costly than what could be achieved through the Administration's flexibility proposals.

When the oilseed marketing loan results in substantial outlays, as it inevitably will, the Congressional reaction will probably be to impose supply controls. So, in the end, what started out being an attempt to improve competitiveness and to increase market share could well have the opposite effect. Our flexibility proposal would cost less and achieve more.

Cotton and Rice

As is the case with wheat and feed grains, we oppose the Committee's loan rate provisions for these commodities. We continue to advocate eliminating minimum loan rates for cotton and rice and using the same formula as currently used for wheat and feed grains.

The complicated procedure for determining world cotton prices for the purpose of administering the marketing loan program could merely add to the cost of the program and add nothing to competitiveness. Whenever U.S. stocks are so tight that prices cannot be brought into line through the marketing loan, issuing certificates or importing cotton in a futile attempt to become competitive will only add to program costs. These mandated policy options should be made discretionary. Discretion to adjust cotton supplies through a paid land diversion should also remain with the Secretary rather than be mandated as the Committee bill would require.

Further, the Committee has extended the 0-92 program to cotton and rice for preventive planting only. We estimate that this provision will raise outlays by $50 million for cotton during FYs 1991-1995.

Sugar

The sugar title as reported by the Committee is unacceptable. The title establishes a sugar program less market-oriented than the existing one at a time when the Administration is attempting, in the Uruguay Round, to persuade sugar producing and consuming nations to reform their policies to become more market-oriented.

While we do not support modifications in the existing sugar program that might be construed as unilateral concessions in the Uruguay Round, we can support an immediate, moderate reduction in the level of sugar price support. We have suggested a 10-percent reduction as such an adjustment would be fair and equitable in comparison to the treatment of target prices and price supports for other commodities under the Food Security Act of 1985.

We do not believe the sugar title, as currently drafted, can be implemented at no cost to the Government, which by law is required to the extent possible. The minimum import quota, coupled with the additional domestic production incentives provided for in the bill, could result in excess supplies of domestic sugar. This excess could be forfeited to the CCC and would have to be disposed of at a cost to the Government of close to $200 million over the FY 1991-95 period.

Mandating a change in the formula to calculate the sugar beet loan rate will result in a higher beet price-support level and will likely encourage additional sugar beet and sugarcane production. Also, extending the sugar loan period from 6 months to 9 months will increase the Market Stabilization Price (MSP) for sugar because interest paid on price support loans is part of the MSP calculation. The MSP is the minimum price for sugar which must be maintained in the domestic market in order to preclude forfeitures of sugar to the CCC. A higher MSP, like an increased beet loan rate, will serve as a signal to producers to increase production.

The title envisions a minimum import quota of 1.25 million short tons. The desired level of sugar in the domestic market is to be maintained through a mandatory triggering of marketing controls on domestic sugar and crystalline fructose. Administering a program of marketing controls will necessitate the creation of a large and cumbersome bureaucratic apparatus and will further increase Government intervention in the sugar industry.

We are also concerned about the proposed sugar re-export provision, which we believe would violate our international obligations. The proposal creates a re-export program of up to 500,000 tons for which as much as a

7-cent premium over the world price would be paid to qualifying developing country exporters. This is likely to induce additional production in those countries which would depress global raw sugar prices. Furthermore, it is a preferential program which could violate our GATT obligations, specifically Article I most-favored-nation requirements, Article XIII requirements for allocation of import restrictions and the waiver we have for our Caribbean Basin Initiative (CBI). In addition, our CBI legislation requires beneficiary countries to show that they are not increasing sugar production at the expense of stable food production. The re-export provision would seem to contradict the intent of the earlier law. The cost of this program is to be financed by funds derived from the sale by the Government of mandatory marketing certificates for sugar or fructose sweeteners, at an estimated annual cost of $87-$95 million to sugar and fructose sweetner processors.

Dairy

The Committee proposal for the dairy price support program would abandon the essential feature of the current program which has successfully reduced dairy product surpluses and brought program costs under control. The key to the success of this program is the mechanism to raise or lower the support price based on projected Government purchases of dairy products. The Committee bill would increase outlays by about $2.5 billion over the 5-year life of the bill. These outlays are more than double the current law baseline of $2.1 billion or the Administration's proposal.

Therefore, we urge retention of the price support reduction mechanism contained in current law but with smaller gradations of support levels and net removal trigger levels in order to fine tune any necessary future adjustments in the support price. Unfortunately, the Committee action moves away from more responsive adjustments by setting the support level at $10.10 per hundredweight and by precluding any adjustment below that level.

By abandoning price support adjustments below the current level of $10.10 per hundredweight, the Committee has had to resort to supply controls limited in effect to two-price plans whenever projected Government purchases become excessive. Although the Secretary of Agriculture is charged with the specific formulation of such plans, the fundamental policy objection remains. Discriminatory two-price schemes imposed by other countries that have resulted in excess production being dumped on world markets have cost American farmers dearly. We are currently engaged in negotiations to phase out such policies on a worldwide basis and should not be initiating such programs here in the United States. In addition, supply controls and two-price plans almost always entail production quotas and bases. Adopting such systems as has been done in Canada and the European Community will ultimately lead to increased costs of production and reduced competitiveness in our dairy industry. Dairy farmers have seen their economic situation improve and surpluses have been worked down. Reversal of a successful policy as this proposal suggests is a major economic mistake, not only for the dairy sector but for consumers as well.

Finally, the requirement that dairy product surpluses be measured on the basis of total milk solids rather than on milkfat will unnecessarily require the dairy program to be administered on a complex and partly subjective basis. This new scheme will contribute virtually nothing to balancing the supply and demand of milk. Mandating an export program for dairy products would not be necessary if the dairy program was kept flexible and responsive to market signals.

Wool and Mohair

The current wool and mohair programs would be extended by the Committee at a cost approaching $1 billion. Out-dated parity-based formulas will continue to increase support prices and program costs for these commodities. As target prices and price support levels for most commodities have been reduced since 1985, we believe that wool and mohair support should be based on a target price commensurate with other commodities. A target price of 90 percent of the 1985 support prices would save about $250 million in an industry where only 6,000 producers receive 85 percent of the payments. The Committee proposal to place a $250,000 limit on the wool and mohair payments is constructive, but insufficient in the absence of reforms in the support price levels as well.

Honey

The Committee proposal for honey raises the price support loan rate by about 5 percent above the current program baseline level for 1991 and holds it constant for the 5-year period of the bill. This results in additional program outlays of an estimated $80 million above the baseline projection of $184 million over the life of the bill. The current program provisions would, if extended, result in gradual reductions in the loan rate and in program outlays. The Administration, however, has proposed conversion of the program to a target price/deficiency payment program with market-oriented loan rates, which we believe would provide better income support for beekeepers than the current program, at reduced cost to the Government.

Peanuts

The current peanut program would be extended, including the use of the cost of production formula which would increase the quota loan rate. The proposed legislation would also increase the minimum poundage quota. Though the bill most likely will not increase Government costs, it does perpetuate a program that fosters inefficiency and that is costly to the American consumer. Domestic prices, already well above world market prices, would increase further under the legislation. It is this very kind of program imposed by foreign competitors that impedes our exports of feed grains, wheat, and oilseeds in world markets.

The Administration has proposed a decrease in the peanut quota loan rate in line with previous reductions in support levels for other commodities. Our proposal would also facilitate the transfer of quota across county and State lines so that peanuts may be grown in relatively lower cost areas, thus enhancing productivity.

Disaster Assistance

We are very disappointed that the Committee has been unable to reach agreement on a standing authority to provide disaster assistance to farmers. Without such an authority, farmers will continue to rely on Congress to enact ad hoc legislation whenever there is a disaster. During the past decade, taxpayers have been charged $6 billion for ad hoc disaster assistance, with an additional $5 billion cost for direct crop insurance subsidies. Earlier this year there were requests to include losses on 1990 crops under the 1989 legislation. This led to an appropriation of $11 million in the recent dire emergency supplemental appropriation to cover losses for the 1990-crop of sugarcane and certain other commodities. Furthermore, legislation has been introduced to extend the 1989 disaster provisions to all 1990 crops.

Meanwhile, Federal costs for continuing the crop insurance program continue to mount and we have been unable to make real progress toward improved actuarial soundness, reduced administrative costs, and acceptable rates of participation. The potential budget exposure due to the combination of crop insurance and ad hoc disaster assistance is far greater than the current law budget baseline projection of about $850 million for crop insurance alone. Disaster assistance for the 1989 crop, including both the cost of crop insurance and disaster payments, totalled about $2.6 billion. Continuation of the current flawed and overlapping programs imposes high budgetary costs without providing farmers reliable, actuarially sound insurance protection.

The Administration has proposed legislation to abolish subsidized crop insurance and replace it with a standing disaster assistance authority, and has testified in favor of a similar proposal (H.R. 4679). Further, House action on the 1991 Appropriations Bill directs the Department to discontinue crop insurance sales after September 30, 1990, and provides only enough funding for meeting commitments on prior sales. We strongly recommend that the final Farm Bill include standing authority for disaster assistance which is affordable and meets the needs of farmers.

Farm Credit

While the House version of the Farm Bill does not include a credit title, measures to reform FmHA's credit programs have been included in H.R. 4077 which was passed by the House on March 6, 1990. Other meaningful reforms proposed by the Administration are included in the Senate version of the Farm Bill. We hope to revisit these matters during conference.

Conservation

We commend the Committee for actions that meet important environmental objectives without imposing excessive regulatory burdens or overly specific

program design features on farmers and farm program administrators. Nevertheless, certain measures called for in the bill are of concern to us from an administrative and budget standpoint.

The bill establishes a 20-million-acre water quality protection program based on incentive payments to farmers for implementing farming practices to protect water quality. The Administration opposes this provision for three reasons. First, pollution prevention in agriculture should not be financed by the taxpayers. The Administration's proposals for reauthorization of the Clean Air Act, as adopted by the Senate, do not support special treatment for one sector of the economy. The costs of environmental protection should be shared equitably across society. Second, the President's Water Quality Initiative is designed to provide appropriate information and technical assistance to enable farmers to voluntarily adopt environmentally sensitive management practices that protect water quality. Third, State and local governments and farmers themselves have the primary responsibility for dealing with these problems which, by their nature, are site-specific. Federal oversight will be neither efficient nor effective.

The bill also addresses water quality and other environmental concerns through an integrated farm management program in the Conservation Title and a similar program in the Research Title. Both programs require detailed, Federally-approved farm management plans and offer incentives to participate in the programs through farm-level adjustments in commodity program acreage limitation or set-aside requirements. As with the water quality protection program, this approach would be costly and inefficient. Moreover, criteria for determining "fair and equitable" adjustments in potential commodity program requirements would be controversial and hard to define quantitatively. Administrative problems and the potential for program abuse would be significant in the absence of a massive compliance effort.

Costs for the water quality protection program are estimated at $230 million on the assumption that incentive payments and technical assistance costs would average about $15 per acre for the 3-year contract period. Lower acreage reduction requirements as authorized in programs in both titles, if carried out together, could add as much as $340 million to commodity program costs. But the most important consideration is whether the costs would be commensurate with the environmental benefits, and we are doubtful on this account, for the reasons just described. On essentially the same grounds, we are opposed to the establishment of the Natural Resource Loan Program that would provide loans to producers to address certain conservation problems. The outlays for loan disbursements in the first 5-year period would be nearly $400 million if funds are appropriated.

The bill also seeks to increase tree planting through the CRP by expanding enrollment eligibility to include marginal pasture land, if it is converted to a wetland or established as a wildlife habitat and by extending contracts to 15 years if producers agree to plant trees. While we support the Committee's limitations on the purposes for which pasture land could be enrolled, we continue to oppose these measures on the basis that the President's "America the Beautiful" initiative is a more cost effective approach that achieves the same end without the need for additional rental payments.

Another concern that we have with the bill is the requirement that the Department review and certify for accuracy those wetland determinations that have already been made. Producers are now involved early on in this process and are provided copies of the preliminary determination. If there are questions about whether an area meets the wetland criteria, Soil Conservation Service technical staff can make a field visit before a final determination is made. This approach has been working well, and we intend to complete all determinations by the end of 1991.

Forestry

We are pleased that the Committee included the authorizations related to the tree-planting efforts of the President's "America the Beautiful" initiative. In order to ensure that the President's goal of planting one billion trees annually can be met, the Department will need the flexibility to emphasize tree planting as a practice under the new Forest Resources Stewardship Program which replaces the current Forestry Incentives Program. We remain concerned that the language does not specify that the President "designate" the nonprofit private foundation. A Presidential designation, such as proposed in the Administration's draft legislation, would ensure that such critical activities as fund raising in the private sector are carried out by a truly private organization rather than a quasi-governmental entity.

We remain concerned about the open-ended disaster assistance provision and the Forest Reserve Program contained in the Committee's bill. Landowners who suffer tree losses due to natural disaster are eligible for the rural tree planting cost-share assistance made available as part of the President's tree planting program in a separate section of the bill. The land acquisition funding requested in the budget appropriately addresses the need to selectively add forested areas to the Federal estate. Moreover, the bill authorizes appropriations totaling $80 million for programs or activities not requested in the FY 1991 budget.

Trade

The Administration strongly agrees with the approach adopted by the Agriculture Committee which continues to vest P.L. 480 program authorities with the President. We are very concerned, however, by action taken by the Foreign Affairs Committee which would assign specific functions under P.L. 480 to different agencies within the Executive Branch. Such an approach would narrow and possibly balkanize the P.L. 480 decision-making process by isolating agencies of the Executive Branch which deal with the varying legitimate concerns and interests affected by food aid programs. Because the P.L. 480 program serves multiple legislative objectives and affects a wide variety of domestic and international interests, we believe it is imperative that authority to direct, manage, and delegate responsibilities for food aid programs be maintained by the President. The approach taken by the Agriculture Committee provides the President needed flexibility to respond to rapidly

changing world conditions and food aid needs. Recent events in Eastern Europe and Central America have demonstrated the advantages of having flexible program authorities with which the President can respond to new and challenging developments overseas.

The Administration also strongly objects to an amendment adopted by the Foreign Affairs Committee which would require a 15-day advance notification to Congressional Committees before signing any P.L. 480 agreement. This is inconsistent with efforts to expedite the food aid decision-making process, and could cause unnecessary and potentially harmful delays in providing food assistance to needy countries.

Although the intent of the Latin America debt-for-nature swap language adopted by the Foreign Affairs Committee parallels part of the President's "Enterprise for the America's" initiative, we believe debt reduction and the environment need to be considered in the context of a comprehensive strategy for trade, investment, and economic growth.

With respect to the export promotion programs, we believe the annual program level proposed by the Foreign Affairs Committee for the Market Promotion Program should be reduced to the level contained in the Agriculture Committee's version. We also oppose provisions adopted by the Foreign Affairs Committee which greatly expand the reporting requirements under the Long-term Agricultural Trade Strategy Report. We are concerned that the level of detail regarding our overall trade objectives, as well country marketing plans, if made public could provide our competitors with information that would be detrimental to U.S. agricultural trade. Further, we oppose the requirement that the spending levels recommended in the reports be treated as the annual budget submission of the President to Congress. This requirement interferes with the President's authority to recommend legislation and should be deleted.

Research and Education

We applaud the actions of the House Agriculture Committee in addressing many of the research and education priorities we have articulated including authorization for the National Research Initiative and recognition of environmental issues. However, we oppose certain research and education provisions in the Committee bill. Water quality programs authorized in the Research Title partially duplicate those contained in the Conservation Title and would be expensive to operate without achieving commensurate environmental benefits.

The Committee bill establishes an independent institute and regional centers for commercialization of new agricultural products. This approach is a costly, inefficient means of achieving our shared goal of commercializing new products. We oppose Committee provisions which authorize the use of Federal funds for financial assistance to commercialize new products. Instead, as with other industrial technologies, we believe the appropriate Federal role is to support research and development and rapid transfer of new technology through mechanisms such as cooperative research and licensing arrangements.

Finally, we have a general concern with the proliferation of highly specific research programs, new centers and management organizations which tend to hamper our ability to plan and manage research programs in the most efficient manner to address priorities identified by the Congress, producers and scientists. We are also concerned with the provision authorizing a program to assist disabled farmers. While we understand the need for these services, the Department of Agriculture is not the appropriate agency to administer such a program. And, we are disappointed that the Committee did not consider our request to retain the Joint Council on Food and Agricultural Sciences in its present form.

Food Programs

The Nation's domestic food assistance programs deserve our strong support. By working together we can ensure that the food assistance programs continue to meet the needs of low-income Americans, do so efficiently, and provide all Americans with confidence in the integrity of their management.

We are pleased to see language that authorizes such sums as may be necessary to fund the Food Stamp Program. This language is critical if we are to eliminate any uncertainty about our commitment to full funding for this important program. We are also pleased that the Committee's bill adopts many of our recommendations to strengthen the management tools available to correct unscrupulous business activities by some stores participating in the Food Stamp Program.

Nonetheless, in view of the budget deficit we are deeply concerned that some of the proposals still under consideration assure substantial, automatic increases in the cost of food assistance programs and lock in spending priorities for years to come. The bill delays implementation of many provisions, thereby making costly expansions in future years with relatively minor costs in 1991. In doing so, the bill circumvents the intent of the Balanced Budget and Emergency Deficit Control Act of 1985. In order to achieve deficit reduction, savings will be needed in the entitlement programs. In that context, the Administration opposes any new expansions in entitlement programs this year.

These new increases come on top of already large cost-of-living and real benefit level increases written into existing law. There are now a million more food stamp participants than a year ago, and we expect to spend over $2.6 billion more on food stamp benefits this year than we did last year. Even without further expansions in the Food Stamp Program, we will spend more than $30 billion more over the next five years than we spent over the last five years. The Committee's bill adds another $4.8 billion to the cost of the Food Stamp Program alone over the next five years. Overall, Title XVII increases spending by $543 million in 1991 and $5.4 billion over five years.

Specifically, we are concerned with a proposal to increase food stamp allotments for all participants by basing the allotments on more than 103 percent of the Thrifty Food Plan, a level agreed to by Congress only two years ago. This provision would yield only marginal benefits to food stamp recipients while not significantly improving the lot of those in greatest need.

The bill includes several other provisions we oppose strongly, including the relaxation of the household definition, elimination of the cap on the shelter deduction, and creation of new standards for State automation. According to a 1987 study, some $1.5 billion in food stamps is paid annually because of the existing excess shelter deduction. It is fiscally imprudent to use the Food Stamp Program to expand housing subsidies at a cost of nearly $2 billion over five years. We are also concerned that the bill does nothing to constrain excessive spending in the food stamp employment and training program. Further, we believe the legislative language in the Committee's bill will delay and, in some cases, stop progress in electronic benefit transfers.

We still oppose the provision in the bill that forgives about $360 million over five years in uncollected claims against States for excessive error rates dating back to 1981. Proponents of forgiving State debts argue that the Food Stamp Program quality control system should be treated like AFDC's system. Yet, unlike AFDC in which States share an average of 45 percent of benefit costs, food stamps are 100 percent Federally financed. Without State liability or effective quality control, States have no incentive to effectively administer food stamp benefits. This provision gives money to States, not to individuals to alleviate hunger. Forgiving these debts undermines our authority to hold States accountable for errors in the future.

Finally, we are very concerned about the provision that creates additional Commodity Supplemental Food Programs (CSFP) to provide exclusive service to the elderly. We recognize that arguments to expand services to the elderly may be compelling. However, the Federal Government already provides nutrition services to the elderly under section 311 of the Older Americans Act, special food stamp benefits, commodities to certain elderly Americans, assistance to long-term care facilities, and the Adult Care Food Program. We support the priority of women, infants, and children in the CSFP and oppose the diversion of resources from this important purpose.

Reports and Studies

Approximately 40 studies and reports are proposed in H.R. 3950. In order to maximize the benefit from limited resources, the bill should also refrain from requiring studies, research, and similar activities that duplicate responsibilities of other agencies. The Department urges House Members to refine these study and report proposals to assure they represent reasonable study requirements with feasible time schedules and adequate funding provisions. It is essential that only feasible and necessary studies be requested and that appropriate funding be authorized for each study or report proposal.

In conclusion, we remain hopeful that we can together develop a 1990 Farm Bill that is acceptable to both the Congress and the Administration. It is imperative that we do nothing in this legislation that would reverse the progress achieved under the 1985 Act. In this regard, we fully support legislation that further enhances American agriculture's competitiveness and at the same time deals in a prudent and fiscally responsible way with the concerns for the economic well-being of farmers, the environment, food safety and the nutritional needs of our population.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

Clayton Yeutter

Clayton Yeutter
Secretary

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

July 16, 1990

The Honorable J. Danforth Quayle
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

I am writing to express the Administration's views on the actions of the Senate Committee on Agriculture, Nutrition and Forestry to develop a 1990 Farm Bill that will be considered by the full Senate in the near future. If S. 2830 were sent to the President prior to the conclusion of the budget summit and does not achieve substantial, multi-year savings from the current Mid-Session Review (MSR) estimate of program costs and if price and income supports are not made more market-oriented than the Committee version, which is a retrogression from the 1985 Act, then the Secretary of Agriculture and the President's other senior advisers would recommend that he veto the bill.

From a budget standpoint, the cost of the bill is excessive. We estimate that the mandatory spending requirements of the bill would result in outlays over $5.0 billion above the MSR current law baseline of $54 billion for FYs 1991-1995. In addition, the bill authorizes appropriations for a number of new programs and authorities which could result in over $3.0 billion of additional outlays.

Significantly, the proposed legislation creates substantial budget exposure that is not well represented by the single number for the cost estimate of the bill. Modest and quite plausible changes in market prices from currently projected levels could well imply substantial future outlays not now reflected in our current estimate. As an example, the soybean marketing loan program appears to be without cost using the current baseline, but a relatively minor change to the soybean price would trigger substantial marketing loan payments. In fact, based on the historical variability of soybean prices, outlays are expected to greatly exceed the costs derived from the assumed baseline market conditions. Another example of significant budget exposure is that the Committee bill would allow the farmer to retain a portion of any USDA overestimate of deficiency payments--the "high-price bonus" program. The budget process assumes no estimate errors--actual payment rates equal projected rates--and scores the cost as zero. Obviously, there will be errors in our estimates and budget costs will occur.

Therefore, the characteristics of this legislation as well as past experience dictate that the Administration's support for the bill will depend not only on the bill's projected outlays under baseline conditions but also the potential for additional budget costs that could result under varying economic and crop conditions during the life of the bill.

The Administration and the Congress are committed to reduction of the Federal deficit. To that end, spending restraint will be required. While the pieces of the budget summit agreement are still being put together, we must recognize that outlays for the 1990 Farm Bill will have to be reduced significantly from the MSR baseline estimate.

Reductions in outlays in the farm program area could be achieved through adjustments to target prices or payment acres and, to a more limited extent, through better targeting of program payments. Payment eligibility could be narrowed to focus on smaller farmers, and administration of the payment limitation could be tightened if payments to artificial entities were attributed back to individuals. We will work with you to meet the agreed upon savings targets, being mindful of the magnitude of the task of deficit reduction.

We also note that there is yet no nutrition title in the Senate bill. We, like you, are committed to continuing our important food assistance programs. However, we are concerned that the Senate bill fails to reauthorize the Food Stamp Program and other nutrition programs and does not adopt many other Administration proposals. In particular, the provisions in our program integrity package and those that can benefit needy families through increased income should be considered. The integrity initiatives will enhance our ability to monitor retail stores and strengthen penalties against those stores who violate program rules, thus ensuring that food stamp benefits are used for their intended purpose.

Meeting budget constraints is completely consistent with our goal to develop legislation that builds on the market-oriented, competitive course of the Food Security Act of 1985. We offer the following comments on individual sections of the Senate Bill to help move the legislation forward to a successful conclusion, as measured by both policy and budget standards.

Commodity Programs

A number of the provisions of the Committee's bill depart from the market-oriented focus of the 1985 Farm Bill and raise the budget exposure of commodity programs. We believe it is unwise to increase the potential cost of these programs given the current budget crisis or to move away from the market oriented policies of the 1985 Farm Bill.

Based on the MSR Budget baseline, we estimate that over their 5-year life the commodity provisions of the Committee's bill will cost about $5.0 billion more than the $54 billion that would be spent under continuation of current law. Since release of the President's FY 1991 Budget baseline in January, several events have caused prices for farm commodities to rise above earlier projections. The MSR update of the President's Budget, which is based on June supply-demand conditions, has incorporated revised price expectations which lowered the projected cost of the commodity provisions of the Committee's bill. However, though the budget baseline outlays are estimated to be lower, the instability of commodity markets dictates that we must consider the variability as well as the absolute dollar estimate of spending for these programs.

One measure of the potential budget exposure of the commodity provisions is the cost of these provisions using the earlier January baseline. Using those assumptions the overall cost of the commodity provisions would exceed the current law baseline by $10.0 billion over the FY 1991-1995 period. The soybean marketing loan program, in particular, would cost about $4.0 billion over the period using the January baseline. As this illustrates, supply-demand conditions can change very rapidly and the outlay exposure is substantial.

One very troubling provision of the Committee bill would require implementation of a pilot program permitting producers to meet their acreage reduction program (ARP) requirement by limiting marketings instead of idling acreage, the so-called pilot bushel-based program. We see no justification whatsoever for resurrecting a discarded commodity program of the past and dubbing it a "pilot" program. This program is pursued by a small minority who advocate mandatory marketing quotas for U.S. agriculture. It is anti-competitive and would represent a complete reversal of the aggressive, export-oriented stance of the 1985 Act.

In the Administration's Farm Bill proposal, we proposed to enhance the competitiveness and efficiency of U.S. agriculture by reducing the rigidity of current programs. The Committee's bill simply does not provide much flexibility, which is a great disappointment to thousands of producers. The very limited flexibility that the Committee has provided involves the farmer weighing the market price of one crop against the target price of another. We believe that planting decisions on all or at least a significant portion of normal crop acreage should be based on market returns alone. This would allow soybeans to compete for acreage with program crops, with much more success than is possible today. Additional planting flexibility would also provide significant environmental benefits.

Wheat and Feed Grains

For wheat and feed grains, the Committee has chosen to mandate marketing loans and give the Secretary the authority to implement one of two alternative loan programs. Under the first option, the announced loan rate in future years could be no lower than the basic loan rate for 1990. The announced minimum loan rate would be $1.96 per bushel for corn and $2.44 for wheat under this option. Under the second option, the authority to reduce the price support level could be used, but only if advance payments are increased.

The first option would raise price support levels for feed grains and wheat by 25 percent in 1991. These higher loan rates, coupled with the marketing loan provisions, would lead to large budget exposure and the problems of competitiveness inherent in such a program. Our past experience with marketing loans for rice and upland cotton is that these programs are very expensive per dollar of additional exports and at times they create disincentives for farmers to sell at competitive prices. We have projected a 5-year cost of $1.2 billion above baseline under this option. The second

loan rate option would require farmers to repay advance payments and it would substantially increase near-term farm program outlays. Implementing the full 20-percent "Findley" loan rate reduction would increase outlays by $2.7 billion above the baseline over FYs 1991-95.

We see no persuasive reason to change the loan rate provisions for wheat and feed grains. Under current provisions we have achieved a substantial increase in exports, regained market share, and farm income has reached new highs. So why fix a program that assuredly is not broken? And why even consider returning at least part way to a program that was broken before being fixed in the 1985 Act?

The Committee Bill would require that deficiency payments be increased 2 percentage points for each 10 percent reduction in the final deficiency payment rate below that announced prior to sign-up. This "high-price bonus" needlessly increases the cost of farm programs. The budget accounting process would score this provision as outlay neutral but, of course, outlays would increase if the Department over-projects the deficiency payment rate at sign-up for even one crop for one year. No one can expect the Department to project farm prices precisely nearly one year in advance of harvest. Based on historical experience, this provision could add up to $1.5 billion for the FY 1991-1995 period. In addition, if prices prove to be higher and payment rates lower than expected, incomes of most producers will be higher since they will be able to market their production at a higher price. And, with the bonus payment, farmers' returns per bushel would exceed the target price. It seems incongruous for Government payments to increase when prices prove to be higher than projected prior to sign-up. Heretofore, Government programs have been designed to offset low prices, not high prices.

Committee provisions to increase the oats target price and barley payments when malting barley prices are high are not justified. Compared with our baseline, these provisions will add a total of $200 million to farm program costs during FYs 1991-95 at a time when payments to other program crops are being held in check.

Soybeans

We object to the oilseed marketing loan proposal that simply introduces a new income transfer program for producers of oilseed crops. It would greatly hinder oilseed producers from responding to market forces. There would be a tremendous increase in budget exposure as the soybean loan rate is increased from the current level of $4.50 per bushel to $5.50 per bushel. There is insufficient flexibility to set the rate below this level. Compared with the MSR budget baseline, the soybean marketing loan would raise outlays by $400 million over FYs 1991-1995. However, the actual outlay level, taking into account the probability of varying supply-demand conditions, could easily be several billion dollars higher. Even if it were possible to implement the program in the short run without penalizing other program crop producers or imposing soybean supply controls, we do not believe that will be possible over time.

It is disturbing that the Committee has chosen to deal with the distortions caused by grain production subsidies by escalating soybean production subsidies. When the oilseed marketing loan results in substantial outlays, as it inevitably will, the Congressional reaction will probably be to impose supply controls. So, in the end, what started out as an attempt to improve the competitiveness and market share of soybeans could well have the opposite effect. Our flexibility proposal would cost less and achieve more.

Cotton and Rice

As is the case for wheat and feed grains, we oppose the Committee loan rate provisions for these commodities. We support elimination of minimum loan rates for cotton and rice and application of the same formula as provided under current law for wheat and feed grains.

The acreage limitation program for upland cotton requires that the announced program result in a carryover of 4 million bales or a ratio of carryover to total disappearance of 33 percent, whichever results in the highest level of carryover. In addition, if at the time of final announcement the acreage limitation program would lead to excessive stocks, the Secretary is required to implement a paid land diversion at whatever level is necessary to reach the stocks target. Requiring such a paid diversion provides no Secretarial discretion and unnecessarily increases the potential cost of the cotton program.

The complicated procedure for determining the world cotton price for the purpose of administering the marketing loan program could merely add to the cost of the program and add nothing to competitiveness. Whenever U.S. stocks are so tight that prices cannot be brought into line through the marketing loan, issuing certificates or importing cotton in a futile attempt to become competitive will only add to budget costs. These mandated policy options should be made discretionary.

Further, the 0-92 program has been expanded to provide preventive planting for cotton and rice. We estimate that this provision will raise outlays by $60 million during FYs 1991-1995.

Sugar

By maintaining sugar price support at its current level, the bill perpetuates the inequity between the treatment of sugar and other program commodities. In order to begin to relieve the burden on American consumers, the Administration would endorse an immediate 10 percent reduction in the sugar price support level.

Dairy

The dairy provisions of the Food Security Act of 1985 have reduced dairy product surpluses and brought program costs under control. The key to this success has been the authority to raise or lower the milk support price based on projected Government purchases of dairy products. We proposed to retain the basic mechanism for setting the support price with more graduated support price and net removal trigger levels in order to better respond to future adjustments in the dairy industry.

The Committee Bill unfortunately moves away from price supports that adjust based on projected purchases and instead establishes a floor at $10.10 per hundredweight. The Committee Bill would increase dairy price support outlays by about $2.3 billion over the 5-year life of the bill, more than double the current law baseline or the Administration's proposal.

The $10.10 minimum support price eliminates the opportunity for market prices to signal a drop in milk production should supplies become large. With this choice, the Committee forced itself into resorting to supply controls, such as two-price plans when Government purchases become excessive. Based on experience here and in other countries, supply controls and two-price plans entail production quotas and bases. Adopting such programs as has been done in Canada and the European Community will ultimately lead to increased costs of production and a less competitive U.S. dairy industry.

The requirement that the Secretary provide both Committees on Agriculture with advance notice of virtually all program actions--most of which must be made with little or no latitude--should be reconsidered. The Secretary should be allowed to run the program without second guessing by the Congress. Moreover, such lengthy, advance notifications mean that decisions will have to be made without benefit of timely information.

Further, the requirement that computations of dairy product surpluses be measured on the basis of total milk solids rather than on milkfat will unnecessarily require the dairy program to be administered on a complex and partly subjective basis which will contribute virtually nothing to balancing the supply and demand of milk. Mandating an export program for dairy products would not be necessary if the dairy program were kept flexible in responding to market signals.

Wool and Mohair

The current wool and mohair program would be extended by the Committee at a 5-year cost approaching $1 billion. Under this program, parity-based formulas would cause support prices to increase over time. As target prices and price supports for most commodities have been reduced since 1985, we believe that wool and mohair supports should be based on a target price commensurate with other commodities. A target price of 90 percent of the 1985 support prices would save about $250 million compared to the

5-year baseline, while maintaining a significant level of support for producers. We note that only about 6,000 producers receive 85 percent of the payments.

Honey

The Committee raised the minimum honey loan rate substantially above the current program baseline level. Continuing the current program would result in gradual reductions in the honey loan rate and program outlays. The Committee bill would almost double current law spending of $184 million by adding $116 million to the cost of the program over FYs 1991-1995. The Administration proposed converting the program to a target price/deficiency payment program with market-oriented loan rates. We continue to believe the latter program would provide better income support for beekeepers, at reduced cost to the Government.

Peanuts

The Committee Bill extends the current program, including the cost of production formula used to escalate the quota loan rate. Domestic peanut prices would continue to rise and remain well above world prices. The minimum poundage quota would also be raised. This proposal would perpetuate a program that fosters inefficiency and is costly to the American consumer. It is this very kind of program imposed by other countries that limits our exports of feed grains, wheat, oilseeds, and other commodities. We proposed eliminating the cost of production escalator and decreasing the peanut quota loan rate in line with previous reductions in support levels for other commodities. Our proposal would also facilitate the transfer of quota across county and state lines so more peanuts can be grown in relatively lower cost areas.

Disaster Assistance

We are very disappointed that the Committee has been unable to reach agreement on a standing authority to provide disaster assistance to farmers. Without such an authority, farmers will continue to rely on Congress to enact *ad hoc* legislation whenever there is a disaster. We have had *ad hoc* disaster legislation in each of the last four years. During the past decade, taxpayers have been charged $6 billion for *ad hoc* disaster assistance, and an additional $5 billion for direct crop insurance subsidies. Earlier this year there were requests to include losses on 1990 crops under the 1989 legislation. This led to an appropriation of $11 million in the recent dire emergency supplemental appropriation to cover losses for the 1990-crop of sugarcane and certain other commodities. In addition, legislation has been introduced to extend the 1989 disaster payment provisions to all 1990 crops.

Meanwhile, Federal costs for continuing the crop insurance program continue to mount and we have been unable to make real progress toward improved actuarial soundness, reduced administrative costs, and increasing rates of participation.

The potential budget exposure due to the combination of crop insurance and ad hoc disaster assistance is far greater than the current law budget baseline projection of about $850 million for crop insurance alone. Disaster assistance for the 1989 crop, including both the cost of crop insurance and disaster payments totalled about $2.6 billion. Continuation of the current flawed and overlapping programs imposes high budgetary costs without providing farmers reliable, actuarily sound insurance protection.

This Administration has proposed legislation to terminate subsidized crop insurance and replace it with a standing disaster assistance authority. We strongly recommend that this legislation be incorporated in the final Farm Bill.

Farm Credit

The credit title of the Senate Bill contains meaningful reforms of the Farmers Home Administration programs. We are appreciative of the Senate Committee's efforts in passing these reforms. There are, however, major omissions that we feel need to be addressed including: (1) a $150,000 limitation on direct farm ownership loans; (2) a $100,000 limitation on direct farm operating loans; (3) a prohibition on the use of direct farm operating and guaranteed farm ownership loans to refinance existing debt except to graduate borrowers from direct to guaranteed farm ownership loans; and (4) a 20-percent equity requirement on guaranteed loans. In addition, the Administration is opposed to the Senate's change in the board of the Farm Credit System Insurance Corporation. We believe the Insurance Corporation should instead have a board of directors and a small staff that are completely independent of the Farm Credit Administration. This policy would be consistent with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which separated the agency insuring thrift depositors from the agency regulating thrift institutions.

Conservation

There are many features of the conservation title that will encourage conservation and environmental stewardship in agriculture. However, as currently drafted, the bill includes several provisions that will add to the budget, overlap with other provisions, and present administrative problems.

We believe the most appropriate way for the Federal Government to encourage tree planting in rural areas is through expansion of traditional programs that provide cost-sharing for planting costs. The pending budget proposal for the President's "America the Beautiful" program includes over $110 million for cost-sharing on rural lands, and there are plans to maintain at least this level of support in future years. We expect many owners of marginal pasture land to participate in this program, as the investment returns in commercial tree planting are often greater than with other options. Proposals to offer additional incentives through conservation reserve-type rental contracts undermine the cost-share programs. Moreover, as total participation in the Conservation Stewardship Program is limited, use of budget resources to carry out tree planting means less is available to deal with problems such as soil erosion and water quality where rental contracts are, in some cases, necessary.

The Agricultural Water Quality Incentives Program represents an unjustifiable as well as an unnecessarily expensive approach to the water quality problem. The initiation of special subsidies to farmers for the purpose of pollution prevention is inconsistent with Administration policy to allocate the costs of maintaining environmental quality equitably across society. The Senate's proposal for the Clean Air Act reflects this rejection of special treatment. While recognizing that an offset to Conservation Reserve Program (CRP) enrollment will provide savings relative to rental payments, we see problems with this program as it entails contract requirements and payments for environmentally sensitive farming practices that are most appropriately left to be worked out by State and local governments and by farmers themselves. We believe that given appropriate information and technical assistance, farmers will voluntarily adopt many of the most critical environmentally sensitive management practices that are needed to protect water quality.

The proposed amendments to the Farmland Protection Policy Act would provide Federally subsidized credit for State and local governments to limit conversion of farmland to non-agricultural uses. Such a program would constitute a significant increase in the role of the Federal Government in an area that has been traditionally handled by State and local governments. Existing programs are now being financed by State and local governments primarily through the issuance of tax-exempt bonds. We have no evidence to indicate that this source of financing is inadequate; nor do we think there is any other basis for Federal intervention in this area.

The provisions of the Integrated Crop Management Program overlap with several other sections of the title. The effectiveness of acreage reduction programs in the commodity titles will be undermined if the authority to waive reduction requirements is widely used. Moreover, criteria for determining "fair and equitable" adjustments in potential commodity program requirements would be largely subjective and difficult to administer. Further, as with the water quality incentives program, we view this program as an inappropriate and inefficient approach to dealing with environmental problems.

Finally, we oppose the provision in the bill to expand the Great Plains Conservation Program to $1.2 billion, an increase of $300 million over the Administration's proposal. While further expansion would generate additional benefits, we do not believe this large an expansion is necessary, particularly in view of the other new conservation programs in the Committee's proposed bill.

Forestry

While there are a number of sound concepts in the Senate forestry title which would be complementary to the President's "National Tree Trust Act", several others are of great concern.

We do not believe the Forest Legacy Program should be included in the forestry title. The President has already committed significant funds to the acquisition of important lands elsewhere under the "America the Beautiful" program. We do not, therefore, support including the acquisition of partial interest in land under the pilot Forest Legacy Program.

Further, we are very concerned about several unnecessary provisions which would interfere with existing programs. The "Southern Forest Regeneration Center" would overlap work already being performed by Forest Service scientists and extramural research conducted by individual university and industry experts. Instead a centralized grant to a single university would be substituted. The "Forest Health Control" provision could be interpreted as limiting the Department's role with respect to non-Federal lands, and the "Emergency Suppression" subsection unnecessarily duplicates the existing funding authority applicable to insect and disease emergencies. The requirement to acquire lands to expand the Talladega National Forest ignores the objective criteria for establishing land acquisition priorities established by the Administration when the President initiated the current policy of supporting land purchases by Federal agencies. This expansion would not rank high under those criteria.

We also object to the fire fighting provision which calls for $100 million for increased financial and technical assistance for fire mobilization activities. The Forest Service has traditionally provided funding for fighting fires and would suggest the committee authorization should reflect past average trends.

Trade and Food Aid

With respect to Subtitle A of the trade title, which deals with U.S. foreign food aid, we are deeply concerned about the mandated administrative structure, as well as the narrow definition of U.S. foreign policy. Current language of the bill removes the President's authority to determine the administrative structure for U.S. foreign food aid programs, and establishes the specific functions of the Secretary of Agriculture and the Administrator of the Agency for International Development (AID). P.L. 480 offers a unique opportunity to accomplish various, often diverse, U.S. policy goals through one program. The language of this title separates decisionmaking responsibility for the various programs and thereby insulates decisions from these various goals of P.L. 480. While we all appreciate the intent of clarifying and streamlining the administration of U.S. food aid, we have strong reservations whether this will be achieved under the provisions of this title. We believe that current administrative changes being undertaken by the Executive Branch will result in the improvements sought by Congress, the public, and the responsible Executive agencies.

A second major concern is the narrow definition of foreign policy to be supported by U.S. food aid that is included in the policy statement. This language would only authorize U.S. food aid to promote U.S. foreign policy by enhancing food security. While supporting the food security of developing countries is certainly one goal of U.S. foreign policy, it is not the only goal. Foreign policy goals cover a myriad of trade and economic issues as well as international political challenges. The bill should include a general reference to supporting the foreign policy of the United States.

Another concern is the requirement to enter into multi-year agreements at the request of recipient countries. As noted by the Justice Department in earlier correspondence with the Committee, this requirement infringes on the President's constitutional authority to negotiate agreements with foreign powers. However, we share your interest in making greater use of multi-year food aid agreements and would be happy to work with you in crafting acceptable language to encourage such programs.

With respect to Subtitle B of the Committee's trade title, which revises the Agricultural Trade Act of 1978, we have several major concerns. First, we strongly object to the provision which permits commodities to be exported under the CCC export credit guarantee program if they are 90 percent by value derived from agricultural commodities produced in the United States. This provision reverses current policy which requires commodities to be 100 percent U.S. content in all cases. In the recent past, CCC experimented with a policy of permitting less than 100 percent content in the case of tobacco and found it troublesome for both policy and management reasons. Based on that experience, we believe this provision will lead to the same problems but on a much broader scale. Moreover, we are concerned that the net effect of this change in policy will be to encourage exporters, already shipping commodities with 100 percent U.S. content, to blend foreign content in their export products.

We are also opposed to the requirement in Subtitle B that the Administrator of the Foreign Agricultural Service (FAS) be appointed by the President and confirmed by the Senate. We fail to understand what benefits will accrue from this provision or how the accomplishments of past FAS Administrators would have been enhanced had it been effective at the time of their appointments. Existing requirements and procedures are appropriate and should not be changed.

We also have a serious problem with a requirement of the Long-Term Agricultural Trade Strategy Reports section that stipulates that the spending levels recommended in these reports "be treated as the annual budget submission of the President to Congress for such activities for such fiscal year ..." As the Department of Justice noted in an earlier letter to the Committee, this requirement interferes with the President's authority to recommend legislation and should be deleted.

Finally, we are opposed to the authorizations for the use of $50 million of Section 32 funds to promote the export of U.S. cottonseed oil and sunflowerseed oil during each of the next five fiscal years. We believe this authorization is totally unnecessary as we have sufficient statutory authorities to assist with the export of these commodities when conditions warrant, and exports of both oils have been made under the Export Enhancement Program. Mandates such as this are frequently difficult to achieve due to rapidly changing domestic and world market conditions which make them out-of-date soon after enactment. This has been the case with similar requirements for the use of Section 32 funds which have been included in the agriculture appropriations acts in recent years, and we believe they should not be continued.

Research and Education

We are concerned with a number of provisions included in the Research title. We oppose the provisions that establish a corporation and regional centers for commercialization of new agricultural products, including the use of Federal funds for financial assistance to commercialize new products. This approach is a costly, inefficient means of achieving our shared goal of moving new products into the marketplace. We believe that private sector institutions that are fully exposed to the discipline of the market are best equipped to make the complex investment decisions involved in commercialization efforts. We support a Federal role in research and development, and rapid transfer of new technology through mechanisms such as cooperative research and licensing arrangements.

The Committee bill sets forth specific priorities and purposes for agricultural research, including rural development and social goals, to be implemented through regulations. The goals are meritorious, but we are concerned that there is not an adequate balance of these goals and the need to provide technology to enhance profitability and productivity. A new Science and Technology Review Board would be established to conduct assessments of science issues and technologies and review the social and economic consequences of research on urban and rural communities. We believe this new entity is unnecessary in view of capabilities existing within the agencies and on the Joint Council and Users Advisory Board.

We strongly endorse the Committee's action to authorize the National Research Initiative which is an important component of our research program. However, we do not support a Committee provision which would require a second review of all grant proposals by a separate advisory panel. The second review would be costly and is unnecessary given the rigorous peer review to which all proposals are subjected.

Marketing

Organic Labeling -- The Department supports national minimum standards for most organically-produced fruits and vegetables, to be voluntarily adopted by the States. The bill, as amended, remains impractical, unwieldy, costly, and would require excessive surveillance at both the national and State levels. The cost would be approximately $150 million in appropriations and $90 million from user fees over the life of the bill.

Agricultural Marketing Reform -- The Department opposes the requirement to amend the commodity grading standards to include flavor, sugar content, and nutritional value and reduce emphasis on cosmetic appearance. These proposed provisions are based on unproven assumptions that USDA fruit and vegetable grade standards increase pesticide use. Moreover, these provisions do not address the importance of appearance factors on the overall quality and wholesomeness of commodities. Moreover, implementation of these provisions would require in excess of $53 million in appropriated funds.

Pesticide Export Reform -- The Department prefers to deal with this issue in the context of separate food safety legislation which is currently under consideration by the Congress. Existing law already bars the import of foods containing residues not allowed under U.S. tolerance regulations. Imported foods are already addressed by current certification and inspection programs. The bill, as adopted, places new burdens and information demands on foreign producers not required of domestic producers of pesticides, thus raising a likely challenge under GATT rules.

Grain Quality -- The bill proposes to establish a permanent Grain Quality Coordinator and a Grain Quality Committee. It proposes restrictions on blending different grain qualities and apparently infringes on the jurisdiction of the Environmental Protection Agency and the Food and Drug Administration. It also proposes to establish an approval process for country elevators.

The Department strongly opposes these provisions. The current organizational structure is adequate to oversee and coordinate our grain quality programs. The Department needs to retain the authority to alert local FDA officials regarding potential quality problems which require further investigation. The country elevator approval process is unnecessary and would cost about $16 million annually.

Reports and Studies

There are over 30 studies and reports proposed in the Committee bill. The Department urges the Senate to refine these study and report proposals to insure they represent reasonable study requirements with rational time schedules and adequate funding provisions. It is essential that only feasible and necessary studies be requested and that appropriate funding be authorized for each study or report proposal.

In conclusion, we remain hopeful that we can together develop a 1990 Farm Bill that is acceptable to both the Congress and the Administration. It is imperative that we do nothing in this legislation that would reverse the progress achieved under the 1985 Act. In this regard, we fully support legislation that further enhances American agriculture's competitiveness and at the same time deals in a prudent and fiscally responsible way with concerns for the economic well-being of farmers, the environment, food safety and the nutritional needs of our population.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

Clayton Yeutter

Clayton Yeutter
Secretary

THE SECRETARY OF AGRICULTURE
WASHINGTON, D. C. 20250

July 15, 1990

Colleague:

I am pleased to release new documents today concerning the 1990 Farm Bill. I think you will find them an effective guide for the agriculture policy debate coming into greater focus as the Senate and House send their versions to the floor for action.

We will assist the Congress in any way possible as we have been doing since early February with the release of our proposals. We will continue to be responsive to their requests for information as we have been during committee mark-up. We must put together a responsible piece of legislation which recognizes our difficult budget problems and keeps American agriculture healthy. There is a lot at stake. Not only do millions of farm families depend on this bill, so does every consumer in America.

It is the obligation of both the Administration and the Congress to deliver to American farmers a 1990 Farm Bill that serves them in meeting new challenges, and assists them in expanding the prosperity they have worked so hard to build.

Sincerely,

Clayton Yeutter

Clayton Yeutter